

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6293**

**BILL NUMBER: SB 20**

**NOTE PREPARED:** Jan 27, 2008

**BILL AMENDED:** Jan 24, 2008

**SUBJECT:** Local Government Finance.

**FIRST AUTHOR:** Sen. Kenley

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Lake County LOIT*: This bill provides that if the local option income tax for property tax replacement is adopted in Lake County, the tax revenue may be distributed only by one of three distribution methods as determined by the Lake County Council

*Amended Personal Property Returns for Utilities*: This bill authorizes a public utility company to file an amended personal property tax return for the public utility's personal property in the manner specified for other personal property taxpayers.

*Solid Waste Management District Budgets*: The bill provides that the annual budget of a solid waste management district must be approved by the fiscal body of each county in which the district is located.

*Firefighting Levies*: This bill provides that certain maximum permissible property tax levies for firefighting are increased by the assessed value growth quotient used in the determination of civil units' levies (rather than being increased statutorily by 5% each year).

*CCD Funds*: The bill also adjusts the maximum property tax rates for county cumulative capital development (CCD) funds and for municipal cumulative capital development funds to reflect the change from 33.33% to 100% of true tax value.

*Local Borrowing*: This bill provides that if a statute authorizes a political subdivision or school corporation to borrow money by issuing bonds, notes, or warrants, the fiscal body of the political subdivision or the governing body of the school corporation may authorize the borrowing of money by obtaining a loan from a financial institution, instead of by issuing the bonds, notes, or warrants. It provides that this provision

applies only to a political subdivision or school corporation that has a fiscal body (in the case of a political subdivision) or governing body (in the case of a school corporation) consisting entirely of elected members. The bill also specifies that the maximum amount of loans from financial institutions to a particular political subdivision or school corporation under this provision may not exceed \$1,000,000.

*Exemptions:* This bill allows a church or religious society that meets certain requirements and that failed to timely file an application for property tax exemption for the 2003 assessment date to retroactively file for and be granted the exemption.

**Effective Date:** (Amended) January 1, 2003 (Retroactive); Upon Passage; July 1, 2008.

**Explanation of State Expenditures:** (Revised) *Lake County LOIT:* If Lake County opts to distribute LOIT revenue on the basis of where it is collected, the Department of State Revenue would have to capture additional information at filing. The Department would have to alter forms, databases, and software to capture a “municipality code”. The additional expense is not currently known.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** (Revised) *Local Borrowing:* There are currently many statutes that permit civil taxing units and school corporations to issue bonds, notes, or warrants to borrow money. Alternatively, this bill would permit a school board or the civil unit fiscal body that is an entirely elected body to borrow money through financial institution loans. The total outstanding loans for a school or taxing unit could not exceed \$1 M. The borrower would still be required to meet all other statutory obligations to borrow money. The cost of financing smaller amounts could be reduced under this provision.

**Explanation of Local Revenues:** (Revised) *Lake County LOIT:* Under current law, the LOIT for property tax replacement may be targeted to (1) homesteads, (2) residential property (homestead and rental), (3) all real and personal property, or (4) any combination of the first three options.

This bill provides that if Lake County adopts LOIT for property tax replacement, the Lake County Council would determine the distribution method from the following three choices:

1. The tax revenue may be used to proportionately reduce all property tax levies imposed by the county unit of government;
2. (a) The tax revenue collected from taxpayers within a particular municipality may be used to provide a local property tax credit at a uniform rate against property taxes imposed by that municipality; and (b) The tax revenue collected from taxpayers within the unincorporated area may be used to provide a local property tax credit to taxpayers within the unincorporated area at a uniform rate against the county unit levy; or
3. Sixty percent of the tax revenue would be used the same way as the #2 option. The remaining 40% would be distributed to the county and to townships and municipalities on the basis of population and used to reduce those taxing units’ property tax levies.

The total LOIT distribution would not be affected by this provision. However, this bill would shift some of the income tax revenue from the benefit of some taxpayers to the benefit of others. Due to a lack of data identifying the geographical source of the LOIT collections, the shift cannot currently be estimated.

*Amended Personal Property Returns for Utilities:* Under current law, business personal property taxpayers may file an amended return within six months of the original or extended due date. This bill would permit

utilities to do the same.

*Solid Waste Management District (SWMD) Budgets:* Under current law, a SWMD budget must be approved by the DLGF and sent to the executive and fiscal body of each participating county and municipality before the SWMD can adopt the budget. Under this bill, each county fiscal body would also have to approve the budget, beginning with 2009 budgets.

*Firefighting Levies:* Under current law, most maximum levy limits grow by the six-year average increase in Indiana nonfarm personal income. The current growth factor is estimated at 4.2% in CY 2009, 4.5% in 2010 and 4.3% in 2011. The growth factor is applied to the sum of the previous year's actual controlled levy plus one-half of the amount of maximum levy in the previous year that was not levied. However, current statute sets the initial maximum levy for a fire territory at 1.05 times the amount that was contracted or billed in the year in which the election is made to provide services through the territory.

This bill would change the 1.05 factor to the growth factor used for other civil units. The current growth factor is estimated at 4.2% in CY 2009, 4.5% in 2010 and 4.3% in 2011. At the currently estimated growth rates, this bill would result in initial fire protection territory maximum levies that are slightly lower than they are under current law. Future levies would be based on the initial levy.

*CCD Funds:* Under current law, the maximum tax rate allowed for a CCD fund is \$0.05 per \$100 of AV in the first year adopted and up to \$0.10 per \$100 of AV beginning in the second year. All tax rates were reduced by two-thirds for taxes payable in 2002 as a result of increasing the assessed value to true tax value ratio from one-third to one. The maximum rate for CCD funds did not get adjusted at that time. According to the DLGF, the rates for all cumulative funds, including the CCD fund were adjusted in 2003. Since the caps in this bill are already used in practice, this provision would have no impact.

*Exemptions:* Under this proposal, a church or religious society may receive a property tax exemption for taxes payable in CY 2004 if:

1. The entity failed to timely file the application for taxes payable in 2004;
2. The property would have been eligible for the exemption if the application had been filed; and
3. The property was subject to taxation.

The property owner would have until June 30, 2008 to file the application for exemption. The county property tax assessment board of appeals would grant the exemption if the property owner meets the above conditions. If the taxes have been paid, the property owner would be entitled to a refund, without interest.

Property tax refunds are paid from current year property tax collections. Taxing units may transfer available money from their levy excess funds to other funds to cover the refunds.

The number of property owners and the amount of tax affected by this bill is not known. At least one taxpayer has been identified in St. Joseph County that would be affected by this provision. The tax in question for this taxpayer totals \$28,000 for taxes payable in 2003, 2004, 2005, and 2006, inclusive.

**State Agencies Affected:** Department of Local Government Finance; Department of State Revenue.

**Local Agencies Affected:** Lake County; Civil taxing units and school corporations; County auditors; County property tax assessment boards of appeal; Solid waste management districts; Wayne Township, Marion County.

**Information Sources:** John Mallers, Department of Local Government Finance, 317-232-3777.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.